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FACT SHEET

FY08 Budget Week

SANDERS' FY08 BALANCED BUDGET PROPOSAL ACHIEVES FUNDAMENTAL REFORMS

**FUNDING CRITICAL LONG-TERM OBLIGATIONS WHILE MAINTAINING MUNICIPAL
SERVICE LEVELS MADE POSSIBLE BY COST-CUTTING AND STREAMLINING**

***Mayor's Reform Efforts to Save City \$50 Million in FY08 Alone;
671 Positions Permanently Eliminated from City Budget***

Fulfilling his promise to reform the City's financial and managerial practices, Mayor Jerry Sanders will deliver an FY08 budget balanced by streamlining and cost-cutting. The product of the Mayor's reforms will be that municipal service levels will be maintained and several critical long-term obligations will be funded. Left unaddressed, these obligations would grow significantly and further threaten the City's financial stability.

In November, the Mayor identified a \$87.4 million budget gap. In order to close that gap, Sanders launched a full frontal attack on the inefficiencies associated with City government. The result is an FY08 balanced budget that does not cut municipal services and a more streamlined City government.

Over the past year, the Sanders Administration has been examining virtually every department, process and function of City government with the objective of reducing costs and creating managerial efficiencies. This process, known as Business Process Re-engineering (BPR), will result in \$49.3 million in cost-cutting during FY08 alone, and \$54.2 million in savings since Mayor Sanders took office.

Major savings will be achieved through personnel reductions. 671.53 full time positions (known as Full Time Equivalents or FTE's) will be permanently eliminated from the City's budget in FY08. Since the Mayor took office in December 2005, he has eliminated a total of 709.53 FTE's from the City's payroll, representing 9.1% of the City's workforce in mayoral departments, excluding sworn public safety personnel. The Mayor plans to eliminate an additional 250 FTE's (for a total of 959.53 FTE) over the next two fiscal years resulting in a total mayoral workforce reduction of 12.4%.

FY08 CITY BUDGET

City Budget by Fund	FY07	FY08
General Fund	\$1,021,203,098	\$1,103,966,742
Non General Fund	\$1,241,452,937	\$1,327,265,462
CIP	\$293,671,493	\$454,620,552
Total	\$2,556,327,528	\$2,885,852,756

MAYOR'S BUDGET WILL INCLUDE FUNDING FOR CRITICAL OBLIGATIONS

The City has ignored funding a number of its long-term obligations, in spite of the fact that they were knowingly assumed. The unfunded liability associated with 8 of these long-term obligations now surpasses \$2.94 billion. Left unaddressed, the liability could double within the next ten years and further threaten the City's treasury and financial stability.

Mayor Sanders aims to change this destructive and expensive behavior by beginning to pay down the principal on 7 critical long-term obligations this year and another one next fiscal year:

- **Capital Improvements and Deferred Maintenance: Project values of \$38 million.** In order to begin addressing the City's capital and maintenance needs, the Mayor's budget dedicates \$5 million to facility improvements and \$33 million to street repair and storm drain improvements. (Total obligations of approximately \$900 million)
- **Americans with Disabilities Act (ADA) Improvements: \$10 million.** The Mayor's budget allocates \$10 million in FY08 to these federally mandated improvements. These include such projects as curb cuts and improved access to public facilities.
- **Storm Water System Improvements: \$18 million.** The City will dedicate \$18 million in FY08 toward complying with the requirements of the City's new storm water pollution prevention permit. This will ensure cleaner beaches. (Obligation increases to \$37 million annual payment next year)
- **Funding the City's Pension System: \$165 million.** The Mayor believes that the City must pay down the pension liability immediately and will contribute \$20 million in addition to the Annual Required Contribution (ARC) of \$137.7 million in FY08. This amount will pay down the Unfunded Actuarial Accrued Liability (UAAL) and allow the City to immediately begin paying into the principal with no negative amortization. In addition, the City has budgeted \$7.3 million to begin to repay the pension system for assets spent inappropriately on retiree health in prior years. The Mayor is committed to fundamental reform of the pension system when all of the City's collective bargaining units are at the negotiating table during FY08. (\$1.2 billion UAAL under the EAN method)
- **Funding a Retiree Healthcare Trust: \$25 million.** The City's budget will include funding that begins to build a trust to cover the future liability for retiree health. The retiree health liability is currently \$1.3 billion. Left unaddressed, the liability would climb to \$2 billion within 10 years. (\$700 million - \$1.4 billion obligation depending on the establishment of a trust)

- **Funding the City's General Fund Reserves: \$5 million.** This amount will increase Reserves to approximately \$60 million, or 6% of the total General Fund. The Mayor's goal is to increase the Reserves to 8% by FY12. Strong reserves are a key component to a strong credit rating, thus decreasing the cost of borrowing. (\$34 million needed to achieve 8% funding)
- **Funding General Liability Fund Reserves: \$5 million.** The City currently has over \$100 million in liability claims and \$0 in reserves to address these claims. By establishing an acceptable reserve level, the City provides needed protections for the General Fund. (\$50 million needed to achieve 50% funding)

The cumulative budgetary impact of funding 7 of these critical areas is \$98.7 million for all City funds, of which \$69.9 million is from the General Fund.

In future years, the Mayor's budget proposal will include a contribution for the City's Workers' Compensation Reserves. At present, the City has approximately \$150 million in outstanding claims and approximately \$18 million in reserves. By establishing an acceptable reserve level, the City will better protect its General Fund. (\$57 million needed to achieve 50% funding)

NO SERVICE CUTS IN SANDERS BUDGET

As a result of the Mayor's aggressive streamlining and cost-cutting, the Mayor was able to balance the City budget and maintain municipal service levels.

- The City's Parks, Libraries and Arts and Cultural Programs will maintain their current service levels. Mayor Sanders believes that these programs afford City residents important quality of life amenities.
- The Mayor's budget includes funding to staff and support 10 new Park and Recreation Department facilities.
- Public safety remains the Mayor's top priority. The Mayor will propose that the City spend \$570.82 million for Police and Fire Rescue during FY08, an increase of nearly nine percent over FY07. In FY07, the City budgeted \$529.64 million for these same functions.

Police:	\$360.1 million to \$390.0 million
Fire:	\$169.5 million to \$180.8 million

REFORMS

- The Mayor's budget will eliminate 671.53 positions.
- City employment will drop from 11,416.35 FTE's to 10,567.45 FTE's as a result of the elimination of 671.53 FTE's and the separate accounting of 177.37 FTE hourly positions for a total reduction of 848.90 FTE's. For the first time in the City's history, hourly employees will be separately budgeted thereby ensuring greater transparency as to their true impact on the City's budget.

- BPR will save the City nearly \$50 million in FY08 alone. Since the Mayor took office, BPR has saved the City \$54.2 million and included the reduction of 488.16 FTE's.

Department/Function	General Fund Positions Cut	Enterprise Funds Positions Cut	Dollar Value Savings
FY07			
Contracts	11		\$907,000
Central Warehouse	5		\$1,100,000
Environmental Services		32	\$2,900,000
Sub-Totals for FY07	16	32	
	Total FTE	48	\$4,907,000
FY08			
Fleet Maintenance	10	25	\$2,600,000
Metropolitan Wastewater		144	\$20,000,000
Development Services	6	106	\$11,000,000
Engineering and Capital Projects	34.25	45.25	\$8,200,000
Publishing Services	10		\$600,000
Streets Division	35.66		\$4,500,000
Police Department	24		\$2,400,000
Sub-Totals for FY08	119.91	320.25	
	Total FTE	446.16	\$49,300,000
Since BPR Began	135.91	352.25	
	Total FTE	488.16	\$54,207,000

16 BPR's have been completed. The Mayor has committed himself to studying every process of City government during his 3 years in office.

- The Mayor's FY08 Budget reflects a number of initiatives that will save and/or make the City millions of dollars.
 - Refinancing of PETCO Park Debt: annual savings of \$3.7 million beginning in FY08
 - Property sales. As part of a strategy to better manage its real estate portfolio, the City is in the process of selling properties deemed not to be core to the City's mission. Anticipated revenues: \$100 million over the next 5 years with \$15.3 million in revenues expected in FY08.
 - Budget clean-up issues. Consistent with the City's budgeting process, funds are set aside for projects. Completed are oftentimes completed under their budgeted amount. As a result of a comprehensive review of fund balances, \$5.1 million will be released and added to General Fund reserves.

CLOSING THE FY09 BUDGET GAP

The Mayor's aggressive reform efforts will continue throughout FY08, thereby reducing the projected budget gap in FY09. Sanders is confident that with the support of the City Council for further cost-cutting and efficiencies, he will be able to identify funding to fully close the FY09 budget gap while maintaining municipal service levels.

	FY09	FY10	FY11	FY12
Beginning Projected Deficit	\$85.0M	\$92.0M	\$94.0M	\$93.0M
<u>Solutions:</u>				
Position Reduction of 250/ 140 General Fund	\$16.7M	\$14.0M	\$14.1M	\$14.7M
Land Sale Revenues	\$6.5M	\$6.5M	\$6.5M	\$6.5M
Prop. 1B Revenues	\$20.0M	\$20.0M	-	-
Sub-Total	\$43.2M	\$40.5M	\$20.6M	\$21.2M
Problem to be Addressed	\$41.8M	\$51.5M	\$73.4M	\$71.8M

FY08 BUDGET REFORMS CONTINUE REFORMS LAUNCHED IN FY07

On June 7, 2006, Mayor Sanders signed the City's FY07 \$2.6 billion budget into law, the first to be crafted and shepherded by a strong mayor in over 70 years. The budget included a number of hallmark reforms:

- Accurately reporting the City's projected revenues and expenses, including a vacancy factor for City departments.
- Identifying and funding supplemental or "phantom" positions throughout the City.
- Breaking out and funding overtime costs of \$8.6 million so that the department can staff to 2,100 officers. Previously, the City Manager balanced their budget proposal by underestimating overtime costs. This practice has become a thing of the past.
- Increasing the budgets of the San Diego Police and Fire departments by \$38 million to address long-ignored needs such as equipment.
- Fully and accurately funding overhead costs in City departments.
- Appropriately placing employees in their true cost centers.
- A commitment to audit enterprise funds every 3 years to ensure the appropriateness of charges. With the establishment of the Independent Rates Oversight Committee (IROC), the Mayor has committed to performing financial and performance audits on the water and wastewater budget every year.
- Not making further reductions to City services after 3 years of service cuts.